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INFO OCT-01 ISO-00 AID-20 CIAE-00 EB-11 FRB-02 INR-10

NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02

LAB-06 SIL-01 OMB-01 STR-08 SS-20 NSC-10 L-03 H-03

PA-04 PRS-01 USIA-15 TAR-02 IGA-02 DRC-01 /166 W
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R 031811Z JAN 74
FM AMEMBASSY BUENOS AIRES
TO SECSTATE WASHDC 4831
INFO USDOC WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 BUENOS AIRES 00051

E.O. 11652: N/A
TAGS: ECON, AR
SUBJ: GOA IMPOSES EXPORT QUOTAS, DOMESTIC SALES CEILING ON
AUTO MANUFACTURERS

REF: A. BA A-431, 12 AUG 71
B. BA 4115, 13 AUG 71

1. SUMMARY: MINECON EELBARD CALLED IN HEADS OF FOREIGN AUTOMOBILE MANUFACTURERS DEC 14 AND UNEXPECTEDLY ANNOUNCED NEW REGULATIONS LINKING DOMESTIC PASSENGER CAR SALES TO EXTREMELY HIGH EXPORT QUOTAS FOR SAME LINES. RULES OBLIGE MANUFACTURERS TO INCREASE EXPORTS FROM 1974 THROUGH 1978 TO REACH LEVEL EQUIVALENT TO VALUE OF 1973 DOMESTIC SALES. HEADS OF FIRMS WERE REQUESTED ON THE SPOT TO SIGN DOCUMENT AGREEING TO COMPLY WITH GOVERNMENT'S PLAN. ALSO PRESENT AND SIGNING WERE REPRESENTATIVES OF LABOR (CGT, AND SMATA AND UOM UNIONS), CGE (INFLUENTIAL PERONIST-ORIENTED BUSINESS ORGANIZATION), CHAMBERS OF AUTO PARTS INDUSTRY AND AUTO DEALERS. PLAN APPARENTLY HAS DUAL OBJECTIVE OF MAXIMIZING AUTO EXPORTS AS PART OF THREE YEAR PLAN AND ALSO FORCING CONSOLIDATION OF LOCAL AUTO INDUSTRY.
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FIRMS MOST LIEKLY TO BE FORCE INTO MERGERS ARE CITROENG, PEUGEOT, AND PERHAPS IKA-RENAULT. US FIRMS ARE QUITE CONCERNED, BUT SHOULD BE IN BETTER POSITION TO SURVIVE THAN SOME SMALLER EUROPEAN SUBSIDIARIES. END SUMMARY.

2. MINECON GELBARD HELD PUBLIC MEETING IN MIN OF ECONOMY
DEC 14, 1973, WITH HEADS OF SEVEN PASSENGER AUTOMOBILE
MANUFACTURING FIRMS, INCLUDING: SAFRA (PEUGEOT SUBSIDIARY),
CHRYSLER FEVRE, GENERAL MOTOS ARGENTINA, FIAT CONCORD,
CITROEN ARGENTINA, FORD MOTOR ARGENTINA, AND IKA-RENAULT.
ALSO PRESENT WERE SENIOR OFFICIALS OF CONFEDERACION GENERAL
ECONOMICA (CGE), CONFEDERACION GENERAL DE TRABAJO (CGT),
SINDICATO DE MECANICOS Y AFINES DEL TRANSPORTE AUTOMOTOR
(SMATA), UNION OBRERA METALURGICA (UOM), AND HEADS OF CAMARA
INDUSTRIAL DE FABRICANTES DE AUTOPIEZAS (CIFARA), ASOCIANCION
DE FABIRCAS DE AUTOMOTORES (ADEFA), AND ASOCIACION DE CON-
CESIONARIOS DE AUTOMOTORES. PURPOSE OF MEETING WAS SIGNING AND
PROMULGATION OF BROAD "ACTA DE COMPROMISO" TO GOVERN DOMESTIC
AND EXPORT SALES OF AUTOS FOR PERIOD 1974-1978, TOGETHER WITH
ISSUANCE OF DECREE 680/73 GIVING OFFICIAL FORCE TO EXPORT
PROGRAM AND IMPACT ON DOMSESTIC SALES. DECREE IMPLEMENTS ARTICLE
TWO OF 1971 AUTOMOTIVE LAS (LAW 19.135), REPORTED IN REF MESSAGES.
PRESIDENTS OF CHRYSLER AND GM SUBSIDIARIES INFORMED EMBOFF THEY
HAD NOT EXPEGED DECLARATION TO BE INTRODUCED PUBLICLY FOR
THEIR SIGNATURE AT THE MEETING, ALTHOUGH QUESTION OF NEW
REGULATIONS AND EXPORT TARGETS FOR AUTO INDUSTRY HAD BEEN
SUBJECT OF PRIVATE CONSULTATIONS WITH GOA AND WIDE PUBLIC
DISCUSSION FOR SEVERAL MONTHS. THEY AND OTHER INDUSTRY SOURCES
FELT GELBARD SPRANG DOCUMENTS ON INDUSTRY IN PUBLIC MEETING TO COERCE
SIGNATURES WITHOUT DISSENT, MAINT-
AINING IMAGE OF WIDE SUPPORT FOR GOA ECONOMIC PROGRAMS
ESTABLISHED WITH EARLIER SOCIAL PACT AND ACCORD WITH AGRICULTURAL
SECTOR. NO ONE FELT IN POSITION TO REFUSE TO SIGN ON THE SPOT.

3. DECLARATION AND DECREE SET OUT QUOTAS FOR AUTO EXPORTS BY
EACH FIRM FOR EACH OF NEXT FIVE YEARS. QUOTAS EXPRESSED IN TERMS
OF PERCENTAGES OF VALUE OF DOMESTIC SALES OF PASSENGER AUTO-
MOBILE MODELS OR PICJ-UP MODESL BASED ON PASSENGER MODELS
DURING CY 1973. SPECIFICA PERCENTAGES ARE: 1974, 15 PERCENT;
1975, 35 PERCENT; 1976, 55 PERCENT; 1977, 75 PERCENT; 1978,
100 PERCENT. QUOTAS TO BE FILLED THRUGH EXPORT OF FULLY
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ASSEMBLED AUTOMOBILES, COMPLETELY-KNOCKED-DOWN KITS (CKD)
FOR ASSEMBLY IN COUNTRY OF DESTINATION, AND AUTOMOBILE PARTS
AND COMPONENTS. TRUCK MODELS NOT BASED ON PASSENGER MODELS
ARE EXCLUED. SPECIFIC VALUES FOR BASE YEAR FOR EADCH FIRM
WILL BE ESTABLISHED BY MIN OF ECON, AS WELL AS VALUES AND
EQUIVALENTS TO BE USED IN CALCULATING FULFILLMENT OF EACH YEARS
EXPORT QUOTAS. FIRMS MEETING TARGET IN EACH YEAR MAY EXPAND
DOMESTIC AUTO SALES IN THE FOLLOWING YEAR UP TO EIGHT PERCET.
FAILURE TO REACH TARGET WILL PRECLUDE FIRM FROM EXPANDING DOMESTIC
SALES AT ALL; DECREE STATES FIRM IN SUCH CASE MUST READJUST
SALES QUOTA INVERSELY IN PROPORTION TO THE EXPORTS NOT ACCOMP-
LISHED UNQUOTE. NEW MODELS MAY BE INTRODUCED ONLY AS PART OF
APPROVED EXPORT PROGRAMS.

4. ACTUAL EXPORT EFFORT REQUIRED BY THESE MEASURES UNCLEAR, SINCE FINAL SALES DATA FOR 1973 NOT YET AVAILABLE AND QUOTAS CAN BE MET BY SALES OF STILL UNSPECIFIED LINES OF COMPONENTS AS WELL AS COMPLETE AUTOMOBILES. SALES BY TERMINAL MANUFACTURERS TO DEALERS THROUGH NOVEMBER TOTALLED 194,290 AUTOMOBILES, AND YEAR TOTAL LIKELY TO BE 214,000-215,000. WITH BASE OF 215,000 UNITS, REQUIRED INDUSTRY EXPORTS IN TERMS OF VEHICLES WOULD BE APPROXIMATELY: 1974, 31,000; 1975, 75,000; 1976, 118,000; 1977, 161,000; 1978, 215,000. MAXIMUM PERMISSIBLE SALES INCREASE IN DOMESTIC ARGENTINE MARKET UNDER THOSE CIRCUMSTANCES WOULD BE APPROXIMATELY 80,000 UNITS, TO ABOUT 295,000 AUTOMOBILES. RECENT EXPORT OF ASSEMBLED AUTOMOBILES HAS BEEN: 1972, 1,682 UNITS; 1973 (10 MONTHS), 3,137 UNITS. IN VAUE TERMS, 1972 AND QOUE EXPORTS BREAK DOWN AS FOLLOWS: 1972, TOTAL EXPORTS US$38.8 MILLIONS, ASSEMBLED AUTOMOBILES US$4.2 MILLIONS, CKD AND PARTS US$21.0 MILLIONS; 1973 (SIX MONTHS), TOTAL EXPORTS US$32.4 MILLIONS, ASSEMBLED AUTOMOBILES US$5.3 MILLIONS, CKD AND PARTS US$11.7 MILLIONS. EXORTS OF ASSEMBLED COMMERCIAL VEHICLES WERE: 1972, US$13.6 MILLIONS; 1973 (SIX MONTHS) US$15.4 MILLIONS.

5. AUTO COMPANIES NOW HAVE UNTIL JAN 14, 1974 TO SUBMIT COM- PLETE PLANS TO GOA INDICATING PRODUCTION SCHEDULES AND REQUIRED INVESTMENTS, EMPLOYMENT, AND OTHER NPUTS TO FUFFILL EXPORT PROGRA. PRESS REPORTS CARRY GOA ESTIMATE PLAN WILL REQUIRE INVESTMENTS BY TERMINAL MAUFACTURERS ONVER NEXT FIVE YEARS OF US$1.5 BILLION (US$300 MILLIONS FOR IMPORTS) IN ORDER TO DOUBLE

CURRENT PRODUCTION OF PASSENGER CAR LINES. ESTIMATES ALSO PUB- LISHED INDICATINGSALES OF AUTO PART INDUSTRY WILL INCREASE FROM PRESENT
US$400 MILLIONS TO LEVEL TO APPROXIMATELY US$1.0 BILLION BY QOUIM AUTO INDUSTRY NOW ATTEMPTING TO GET EXTENSION OF 30 DAY PERIOD ON GROUND DETAILED INVESTMENT AND PRODUCTION PLANS FOR NEXT FIVE YEARS CANNOT BE PREPAREDIN SUCH SHORT TIME.

6. LOCAL INDUSTRIAL CIRCLES AGREED THAT FIVE YEAR EXPORT GOALS ARE NOT REALISTIC IN ANY SENSE, AND CAN BEST BE VIEWED AS GOA EFFORT TO FORCE MAXIMUM POSSIBLE EXPORT EFFORT OUT OF FIRMS AND ALSO FORCE CONSOLIDATION OF PRODUCT LINES AND COMPANIES IN THE INDUSTRY, ONE OF THE ORIGINAL OBJECTIVES OF LAW 19.135. PRESIDENT OF CIFARA, AUTO PARTS INDUSTRIAL

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LAB-06 SIL-01 OMB-01 STR-08 SS-20 NSC-10 L-03 H-03

PA-04 PRS-01 USIA-15 TAR-02 IGA-02 DRC-01 /166 W
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R 031811Z JAN 74
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ASSOCIATION, TOLD EMBOFF IN OCT THAT MAXIMUM FEASIBLE EXPORTS OF ARGENTINE AUTOMOTIVE INDUSTRY MIGHT BE EQUIVALENT OF 100,000 UNITS PER YEAR, INCLUDING TRUCKS AND COMMERCIAL CHASSIS. THIS ESTIMATE PARTICULARLY INTERESTING BECAUSE CIFARA COMPOSED MOSTLY OF SMALLER ARGENTINE FIRMS LINKED TO CGE, AND IS STRONGEST GROUP WITHIN AUTOMOTIVE INDUSTRY SUPPORTING GOA POLICIES TO PROMOTE EXPORTS AND CONSOLIDATION WITHIN TERMINAL MANUFACTURING SECTOR. LARGE FIRMS SHOULD HAVE NO INSUPERABLE DIFFICULTY SATISFYING QUOTAS FOR 1974, SINCE PRESENT EXPORT BASE STILL RELATIVELY SMALL, BUT REACHING GOALS FOR SUCCEEDING YEARS IS HIGHLY UNLIKELY FOR INDISTRY AS WHOLE AND FOR SMALLER AUTO MAKERS IN PARTICULAR. BOTTLENECKS INCLUDE: A) LACK OF CAPITAL RESOURCES IN PARTS INDUSTRY TO EXPAND AND CONVERT PRODUCTION TO SUPPORT EXPORT EFFORT; B) DIFFICULTIES WITH PHYSICAL CAPACITY OF PORT OF BUENOS AIRES AND LAND ROUTES TO CARRY VOLUME OF EXPORT SHIPMENTS IMPLIED BY TARGETS; C) POSSIBLE UNWILLINGNESS OF MANY HOME COMPANIES TO MAKE CAPITAL INVESTMENTS NEEDED TO INCREASE AUTO PRODUCTION 100 PERCENT IN ARGENTINA OVER NEXT FIVE YEARS; D) PROBLEM OF FINDING NEW EXPORT MARKETS OR CONSIDERABLY EXPANDING EXISTING ONES; AND E) FISCAL BURDEN ON GOA TTEASURY OF PAYING OUT EXPORT SUBSIDIES ON INCREASED EXPORT VOLUMES. PRESENTLY, AGGREGATE OF CASH REIMBURSEMENTS AND VARIOUS TAX AND CREDIT BENEFITS AVAILABLE TO AUTO EXPORTER
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ALLOWS RECOVERY OF APPROXIMATELY 50 PERCENT OF THE FOB VALUE OF EACH AUTOMOBILE SHIPPED ABROAD. PARTS AND COMPONENTS ENJOY SIMILAR BENEFITS AS NON-TRADITIONAL MANUFACTURED EXPORTS. AT PRESENT RATES, TREASURY WOULD HAVE TO PAY OUT ALMOST US$ 400 MILLION IN DIRECT CASH SUBSIDIES FOR 1978 EXPORTS. ARGENTINE PRODUCTION
COSTS ARE 50-70 PERCENT ABOVE INTERNATIONAL LEVEL BECAUSE OF SMALL PRODUCTION SCALE. EXPORTS LIMITED BY HIGHER FREIGHT COSTS TO POTENTIAL MARKETS IN AFRICA, EUROPE; INTEREST OF LARGEST POTENTIAL

LATIN AMERICAN MARKETS IN BUILDING UP OWN INDUSTRIES; AND OBSOLETE OR OTHER WISE UNSALEABLE MODELS PRODUCED BY MANY ARGENTINE PLATS. GM AND FORD BOTH AT DISADVANTAGE IN THIS SENSE, BUT WILL HAVE APPROVED NEW MODELS IN PRODUCTION IN 1975 AND 1974, RESPECTIVELY, AND SHOULD RECOVER GROUND.

7. COMMENT. MAJOR EXPANSION OF AUTOMOTIVE EXPORTS IS GOAL OF NEW GOA POLICY, ALTHOUGH SPECIFIC TARGETS FOR LATER YEARS PROBABLY CANNOT BE MET UNLESS GOA IS PREPARED TO GIVE GREATER ASSISTANCE THAN IT HAS SO FAR INDICATED. DECREE AND PUBLIC DECLARATION GIVES GOA INSTRUMENT TO REQUIRE MAXIMUM EFFORT FROM COMPANIES TO EXPAND EXPORT SALES, ALTHOUGH IT REMAINS PUZZLING WHY AGREEMENT EXCLUDES TRUCK LINES, WHICH ACCOUNT FOR GREATEST SHARE OF EXPORT GROWTH. KEY TO WHOLE MATTER SEEMS TO BE SECOND GOAL, REDUCTION OF MODEL LINES AND NUMBERS OF TERMINAL MANUFACTURERS IN ARGENTINE MARKET. SEVEN COMPANIES ARE EVIDENTLY EXCESSIVE IN MARKET ABSORBING ONLY 200,000 CARS ANNUALLY, AND INTENT OF GOA APPEARS TO BE TO REDUCE THIS NUMBER TO FOUR OR FIVE BY 1978. MOST LIKELY CANDIDATES FOR CULLING ARE CITROEN AND PEUGEOT, BOTH SMALLER FIRMS WITH MODELS UNSUITABLE FOR EXPORT AND INSUFFICIENT RESOURCES TO INTRODUCE NEW LINES IN COMPETITION AGAINST LARGER FIRMS. IKA-RENAULT MAY ALSO SUFFER AND MAY BE ABSORBED BY FIAT OR MERGE WITH PEUGEOT, ACCORDING TO SOME OBSERVERS. THE THREE US FIRMS AND FIAT SHOULD BE ABLE TO SURVIVE. ALL FOUR SHOULD BE ABLE TO FILL OUT QUOTAS WITH SHIPMENTS OF CKD KITS AND PARTS, TAKING ADVANTAGE OF ESTABLISHED PATTERNS OF SALES TO OTHER CORPORATE SUBSIDIARIES ABROAD AND USING INTERNATIONAL MARKETING ORGANIZATIONS OF PARENT CORPORATIONS. MORE CRUCIAL WILL BE DECISION OF PARENT CORPORATIONS AS TO WHETHER THEY HAVE SUFFICIENT INTEREST IN ARGENTINE MARKET TO MAKE REQUIRED IVESTMENT EFFORT TO STAY ON. AGAIN, EVIDENT INTENT OF GOA IS TO CONSOLIDATE THIS CRITICAL INDUSTRY,

NOT BREAK IT BY DRIVING OUT FOREIGN INTERESTS ALTOGETHER. GELBARD UNDERTOOK IN DEC 14 MEETING TO EXTEND PUBLIC ASSURANCES OF MAXIMUM SUPPORT OF GOA TO FIRMS COO* RATING WITH PROGRAM, WITH REGARD BOTH TO SECURITY AND ECONOMIC SUPPORT. HOWEVER, THERE IS NO INDICATION THAT T*E GOA IS PREPARED TO REVERSE ITS POLICY OF NOT ALLOW NG FOREIGN-OWNED COMPANIES ACCESS TO LOCAL MEDIUM AND LONG TERM CREDIT, SO INVESTMENT WOULD HAVE TO BE NEW MONEY. ACTUAL IMPLEMENTATION OF PROGRAM CAN BE EXPECTED TO BE UNDERTAKEN WITH FLEXIBILITY TO ENCOURAGE COMPANIES TO CONTINUE OPERATIONS HERE. GOA RUNNING RISK OF PROVKING CONSIDERABLE ECONOMIC DISRUPTION, HOWEVER, BY ADDING THIS BURDEN TO PROBLEMS ALREADY CAUSED BY POLICIES ON PRICES AND ON FOREIGN INVESTMENT IN GENERAL. AUTO MANUFACTURERS SAY THEY ARE LOSING CONSIDERABLE MONEY, AND WE HAVE NO REASON TO DOUBT THIS. UNLESS THEY ARE GIVEN REASONABLE AND CREDIBLE ASSURANCES THAT THEY WILL BE ALLOWED TO RETURN TO PROFITABILITY, THEIR WILLINGNESS TO INVEST NEW DOLLAR FUNDS WILL BE MINIMAL.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 27 JUL 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AUTOMOTIVE INDUSTRY, FOREIGN INVESTMENT, TRADE PROMOTION, LAW, ECONOMIC PROGRAMS, EXPORT QUOTAS, BUSINESS MERGERS, EXPORT DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 03 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BUENOS00051
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740174/abbrzapu.tel
Line Count: 277
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. BA A-431, 12 AUG 71 B. BA 4115, 13 AUG 71
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2002 by cunninfx>; APPROVED <04-Sep-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOA IMPOSES EXPORT QUOTAS, DOMESTIC SALES CEILING ON AUTO MANUFACTURERS
TAGS: ECON, AR
To: STATE INFO USDOC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005